


**ACTUARIAL NOTE
REGULAR SESSION 2009**

House Bill 655 HLS 09RS-1161 Enrolled	Preparation of this Note was directed by the Actuarial Services Division of this office
Authors: Representatives B. Badon and Montoucet June 17, 2009	
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MUNICIPAL POLICE EMPLOYEES' RETIREMENT SYSTEM	Legislative Auditor
EN 5yr Ttl See Actuarial Note	

Bill Header: Relative to the Municipal Police Employees' Retirement System (MPERS), provides for an initial benefit option (IBO) on a reemployed retiree's additional retirement benefits

Estimated Fiscal Impact:

EXPENDITURES:	2009-10	2010-11	2011-12	2012-13	2013-14	5 Yr Total
State General fund	0	0	0	0	0	0
Agy Self Generated	See below	See below	See below	See below	See below	See below
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	See below	See below	See below	See below	See below	See below

REVENUES	2009-10	2010-11	2011-12	2012-13	2013-14	5 Yr Total
State General fund	0	0	0	0	0	0
Agy Self Generated	0	0	0	0	0	0
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	0	0	0	0	0	0

Purpose:

Allows a MPERS re-employed retiree, upon leaving employment for the second time, to choose an IBO for the additional benefits accrued during the retiree's period of re-employment.

Bill Provisions:

Relative to MPERS, provides for an (IBO) on a re-employed retiree's additional retirement benefit.

Existing Provisions:

Currently, the provisions of the MPERS law restricts a re-employed retiree to receiving the additional benefits that the retiree has earned from his re-employment to the same optional form that he/she selected when he/she initially retired from the system. One of the several optional forms of benefits that a retiree can select upon retirement from the system is an IBO.

Related Information:

An IBO is a form of benefit that is available to a retiree in lieu of the retiree receiving the maximum benefit that he/she earned under the system. There are, in addition to the IBO, several other options that are also available to all retirees. Optional benefits generally provide for the continuation of a monthly benefit to a beneficiary in the event of the death of the retiree. An IBO, however, allows for a retiree to receive a portion of his benefit in a lump sum upon retirement. The remaining monthly annuity benefits are then reduced so that the value of the remaining monthly benefits, plus the lump sum amount, is actuarially equivalent to the value of the maximum benefit that he/she would have received if no optional benefit had been selected.

Actuarial Impact:

Actuarial Cost Impact: Potential Negligible Cost – See Actuarial Analysis.

Potential Actuarial Liability: None or negligible.

Actuarial Analysis:

An optional benefit that allows the retiree to select a partial lump sum payment immediately prior to retirement allows the retiree to "select" against the retirement system. A retiree in bad health, with a significantly reduced remaining life expectancy, can select to receive a partial lump sum thereby receiving a larger amount than he/she would have received had she/he retired under the normal provisions of the plan without a beneficiary and died two months after retiring. If

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that had been the case the system would have no further liability associated with this retiree beyond providing benefits that equal the amount of the retiree's contributions to the plan. On the other hand if the retiree selects the IBO and elects to receive a lump sum payment equal to 36 months of future payments and dies two months later, the system will have effectively paid almost 36 months of unreduced benefits that it would not have paid otherwise.

IBO benefits subject the system to potential anti-selection. However, it is not possible to know, in the case of anti-selection resulting from health issues, whether an individual who wants an IBO upon retirement is selecting against the system, or not without the retiree submitting to a health physical. A physical is not required by the system for someone retiring with a normal service retirement. Until experience emerges after adoption of this benefit it will be difficult to determine what actuarial cost, if any, would result from offering an IBO option.

Fiscal Impact:

The cost for this bill depends upon the whether the individual selecting the IBO is in "average" health as generally assumed by the mortality table that is used for converting a benefit from one form to another. If an individual is of less than average health there will likely be a cost; but, it cannot be determined beforehand.

Dual Referral Rules:

Estimated Fiscal Impact >= \$500,000? NO